



February 21, 2008

RECEIVED

Chairman Mike Gleason and Commissioners
1200 W. Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

FEB 22 2008

Re: Docket No. W-03512A-07-0362 (Pine Water Company)
AZ CORP COMMISSION DOCKET CONTROL

DOCKETED BY	<i>nr</i>
-------------	-----------

Dear Chairman Gleason and Commissioners,

As Chairman of the Pine/Strawberry Water Improvement District (PSWID), I am writing to provide background on the Board's January 30, 2008 decision to authorize execution of Escrow Instructions and retention of HydroSources Inc. (HSI) to assist in coordinating and facilitating the development of the K2 Project.

The PSWID respects the authority of the Commission over the Pine Water Company (PWCo) and the Commission's efforts to create a full record in the above docket. The evidentiary portion of the matter has been completed and Commission Staff recommends approval of the Application. The PSWID confirms its support for PWCo's Application and renews its request that the Commission act expeditiously in approving it.

However, the summer of 2008 is fast approaching. Despite recent rain and snow, Arizona is still suffering from several years of drought. The PSWID is unaware of any new source of water available to the Pine or Strawberry community this summer. The dispute between PWCo and Mr. Pugel is driving a wedge between the landowners within PSWID. The Rim Country Water group is so focused on getting rid of Brook Utilities, they appear to be encouraging entities who have sold water to PWCo in the past to stop doing so. Mr. Pugel, who claims to have a well capable of pumping a 150 gpm or more, has testified that he will never sell water to PWCo.

Under the foregoing circumstances, residents of the Pine and Strawberry communities are looking at the possibility of another summer of water shortages and, for Pine, significant water hauling charges. The PSWID's mission is to "implement and formulate plans as necessary to provide long-term available water to the communities." As reflected in the enclosed Test Well Schedule Overview, the Joint Well Development Agreement (JWDA) still has the potential to provide water to the Pine and Strawberry communities this summer, but only if implementation commences immediately.

For there to be any chance of the Pine and Strawberry communities having an additional water supply this summer, the PSWID determined it must immediately fund the JWDA Escrow. This could only happen if the PSWID was willing to proceed prior to receipt of a Commission decision on PWCo's Application.

Pine/Strawberry Water Improvement District
P.O. Box 134, Pine, Arizona 85544-0134
www.pswid.org

By funding the Escrow without awaiting a Commission decision, the PSWID is not ignoring the Commission's regulatory authority over PWCo. PSWID understands that PWCo has no authority to incur indebtedness without prior Commission approval. Therefore, PSWID has funded the Escrow with the understanding that, to the extent PWCo's contingent obligation to repay the PSWID is encompassed by A.R.S. §40-302(A), PWCo's contingent obligation does not arise unless approved by the Commission. Funding the Escrow now is seen by the Board as only a slight increase in its risk, since, even after the Commission approves the pending Application, the JWDA does not require the return of the PSWID's investment until a production well is developed and included in rate base. The PSWID is willing to proceed now because of the potential benefits to its residents this summer.

The PSWID is also informed that A.R.S. § 40-285(A) does not preclude PWCo from encumbering PWCo assets that are not necessary or useful in PWCo's performance of its duties to the public. PSWID understands that the executed lien on the K2 well site and the facilities to be installed therein is currently effective only to the extent the assets are not necessary or useful in the performance of PWCo's duties to the public. Otherwise the lien will only be effective after the Commission authorizes PWCo to encumber these assets. Again, PSWID has reluctantly agreed to limit its rights under the JWDA in order to afford the residents of Pine and Strawberry an opportunity to have access to more water this summer.

The PSWID trusts the Commission will understand that the PSWID has acted out of urgency and a desire to assist its landowners this summer. Again, the PSWID's actions are not intended to circumvent the Commission or its regulatory authority over PWCo. The PSWID's actions are guided by its mission to "implement and formulate plans as necessary to provide long-term available water to the [Pine and Strawberry] communities."

Sincerely,

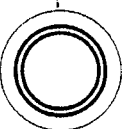
R. Gary Sherlock

R. Gary Sherlock, Chairman

cc: Docket Control (14 copies)

Pine/Strawberry Water Improvement District
P.O. Box 134, Pine, Arizona 85544-0134
www.pswid.org

Test Well Schedule Overview



- Permitting: February 08 – June 08
 - Site Preparation: February 08 – March 08
- Power Supply: February 08 – March 08
- Long Lead Items: February 08 – March 08
- Well Drilling and Construction: April 08 – June 08
- Well Testing and Sampling: June 08 – July 08
- Test/Production Well Completion: July 2008